

SEP 9 1987

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information you submitted indicates your organization was incorporated [REDACTED], under the Non-Profit Laws of the State of [REDACTED].

The Purposes of the Club include promotion of members' enjoyment in riding motorcycles.

The club was formed to stimulate a friendly relationship between motorcyclists and the general public as well as to "assist members and non-members of the club."

Membership consists of two classes, active and honorary. Active members "shall be riders or motorcycle enthusiasts or active in motorcycle businesses." Only active members may vote in club affairs and a two-thirds vote of active members is required to approve honorary members. Honorary members "shall be women motorcycle riders, wives and others."

Activities consist of off-road races and motorcycle events, conducted by volunteer members. The general public is encouraged to attend by paid advertising.

Sources of revenue are club dues and entry fees. Total receipts from dues vary each year from \$[REDACTED] to a high of \$[REDACTED]. The club has provided an annual classification of receipts as follows:

Year	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Non-Member Receipts	\$[REDACTED]	\$[REDACTED]	\$[REDACTED]	\$[REDACTED]
Total Receipts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

File	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
name						
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These ratios produce percentages of non-member income of █%; █%; █%; and █% respectively.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

Your attention is invited to Revenue Procedure 71-17, modified by Public Law 94-568, which sets forth limitations on the extent to which nonmembers may participate in activities you sponsor, as well as the record-keeping requirements relevant to such participation. Under Public Law 94-568, no more than 15 percent of gross receipts can be derived from the use of club facilities and services by the general public.

Revenue Ruling 60-324, 1960-2 C.B. 173 describes an organization exempt under Code section 501(c)(7) in which a social club allowed numerous non-member usage to an extent that the club was found to be catering to the general public rather than operating for members' pleasure and recreation. Salient issues include the recurrence of non-member involvement as well as the magnitude of non-member participation.

Revenue Ruling 65-63, 1965-1 C.B. 240 concerns an organization conducting sports car events. The activities are conducted by unpaid volunteer members. Because public spectators are attracted, as well as to insure against inherent dangers and hazards, liability insurance is carried. The general public is permitted to attend races on a recurring basis by paying a fee. Public patronage is solicited by advertising. The resultant income pays for race expenses, timing devices, signals, equipment, and liability insurance. This revenue ruling concludes that public patronage is permissible if incidental; if

[REDACTED]

it furthers club purposes; and if net income does not inure to members. However the described organization had activities of such magnitude and recurrence in permitting public patronage as to constitute engaging in business with the general public and was not exempt.

Your organization has an established pattern of operating in which non-member receipts are not trivial; non-member receipts recur; and non-member receipts are significant and substantial. Therefore, the requirements of Code section 501(c)(7) are not met. Consequently, exempt status cannot be granted and Federal income tax returns should be filed.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018

cc: [REDACTED]